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RESEARCH ARTICLE

THEORY OF FINANCE AND FINANCING STRATEGIES

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Abstract

This work discusses the theory and strategies of finance. Financing strategies are essential factors that play significant roles during the lifetime of a client to assist clients in meeting financial goals such as education planning, investment planning, retirement savings, and income planning. With an uncertain economy, a financial planner is needed to help consumers prioritize their finances to achieve long-term financial stability throughout these tough times. There are numerous options for financing financial goals. These various options often make financial management much more difficult for a client. As part of the financial planning process, recognizing and evaluating financing strategies is of the utmost importance in helping clients set and achieve short-term and long-term goals. This recognition will also aid clients in their financial decision-making and provide a consistent track to meet these financial goals. A financial planner should stress the importance of financing strategies, including cash flow management, debt management, borrowing, and financial goals. The author tries to explain the given topic wider by eliciting several examples and charts as well.

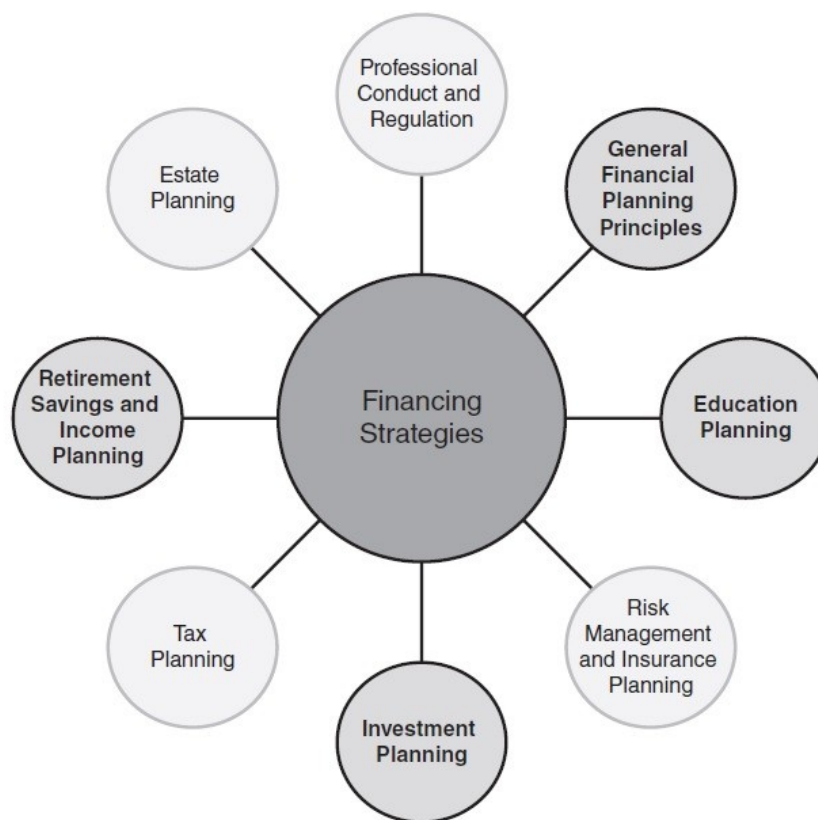
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Introduction:-

A financial planner must be able to efficiently explain the complete spectrum of financial strategies by evaluating each stage ("AMERICAN FINANCE ASSOCIATION" 2021). Financing strategies undergo five stages of a client's life, and each milestone has a meaning related to the overall financial assessment. The first stage is the "Starting-Out Years," ranging in age from 18 to 25. This stage is important as clients are beginning adulthood and trying to understand their financial capabilities. At this stage, the choices about education, employment, and debt management will likely have a major impact on a client's financial status for many years and decades in the future, including retirement (Karlibaeva 2014). A financial planner consulting with a client within this stage must be able to help the client prioritize goals and ideas for establishing his or her financial status. Also, the financial planner should monitor how clients choose to spend their money and what types of financial decisions they make (Vishny and Zingales 2017). If clients accumulate a high level of debt, it may reduce their ability to obtain affordable credit, both in terms of new credit awarded and interest rates charged for transactions such as financing a car or house. The second stage is the "Nesting Years," which range from age 25 to 40.

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This phase marks the beginning of making meaningful financial decisions such as starting a career, getting married, and buying a house. A financial planner must be able to understand the importance of the financial implications of these decisions, as this phase is critical to lifetime financial stability (La Porta et al. 1998). Financial planners should explain the value of saving and investing in retirement accounts such as a traditional individual retirement account (IRA), Roth IRA, and 401(k) that make contributions toward retirement income. This phase begins the client's lifestyle where everything starts to settle in. For example, the financial planner may need to educate clients about mortgages and car loans. The ability to successfully execute these types of financial decisions will result in financial stability for not only the client but the client's family as well (Brassett 2018). The financial planner should inform the client about setting financial goals for the future. This foundation gives both the financial planner and the client a financial guideline by which to abide in case of emergencies occur. In this phase, it is also important for clients to have strategies that can help them reach short-term and long-term financial goals. The third stage is the "Prime Time Years," which range from age 40 to 55. A financial planner must be mindful of a client's discretionary income. Discretionary income is the amount of income left for spending, investing, or savings after taxes and personal necessities such as food, shelter, and clothing are paid for.

Method and Materials:-

A financial planner must realize that a client has more financial freedom due to this discretionary income, thus establishing how valuable making rational financial decisions will be in both the short term and the long term. During this phase, a client likely has more discretionary income than in prior stages. This can be both good and bad for the client. The guidance of a financial planner is mandatory to assist in managing this new found income. A client may feel that this discretionary income can be used to splurge on items or simply spend it all each pay period or annually. A financial planner should introduce ways a client can use this income to contribute toward reaching his or her financial goals by following the financial strategies (MacKinlay 1997). The fourth stage is the "Wealth Accumulation Years," which range from age 55 to 65. The decisions on investing, spending, and lifestyle come into view (Stapleton, Brealey, and Myers 1981). A financial planner has to assess a client's retirement financial goals because this transition is quickly approaching. Financial planners should help guide clients on retirement and investment options that may enhance their future retirement funds. This phase closely examines the results of previous financial decisions on retirement income. If clients do not prepare appropriately, the growing rate of

inflation and possibly diminishing Social Security benefits may leave them at a financial disadvantage. A financial planner should be able to evaluate the plan created at the initial stage and see if a client financially maintained that course (Satchell 2003). The fifth and final stage is the “Reinvention Years,” which include ages 65 and older. The success of this phase is dependent on making good financial decisions and using financial resources that match a client’s financial status. The investment costs of the program, which are estimated at \$1.2 billion, will be financed by a combination of 75% budget financing, 20% foreign investment financing, and 5% local donor contributions (Shaturaev 2014). A financial planner is needed to help organize how a client maintains retirement income and expenses in terms of participating in leisure activities such as traveling and vacation trips with family, interest in part-time work to steadily create more income without a full-time working status, or the ability to assist with various projects in the community, including making monetary donations.

Results and Discussion:-

The availability of financial advice over the Internet at low cost may help to address some of the information-asymmetry problems for households concerning commodity-like products for which the quality of performance promised is easily verified. However, the Internet does not solve the “principal-agent” problem concerning more fundamental financial advice dispensed by an agent. That is why I believe that the future trend will shift toward more integrated financial products and services, which are easier to understand, more tailored toward individual profiles, and permit much more effective risk selection and control (Karlibaeva 2014).

An entry-level personal financial planner can help the client organize his or her financial goals. An entry-level planner can gather information from the client and understand what financial goals are feasible (Рыманов and Rymanov 2018). There are instances where the client’s financial goals may not be realistic. At this point, a financial planner has to communicate efficiently to the client about short- and long-term financial goals. An entry-level financial planner can inform clients of the importance of maintaining a high level of financial management. In terms of financing strategies, a financial planner should stress the importance of debt management (Shaturaev Jakhongir 2019).

A competent personal financial planner can create a debt management plan that allows a client to manage his or her finances without accumulating detrimental debt in both the short term and the long term. A competent planner should inform clients regarding the risks behind certain financial decisions that may affect their credit and ability to reach financial goals (Finance 2018). A competent personal financial planner can address the pros and cons of making financial decisions such as paying for a home, a car, and vacations (et al. 2020). Competent financial planners can create an overall debt management plan that minimizes the costs and enhances the benefits for a client for the long term. An expert personal financial planner can explain to clients their borrowing options based on their current financial status. An expert financial planner will have a combination of exceptional knowledge and experience to combine all aspects of financing strategies, which include debt management, borrowing, and financial goals, to create a complex financial plan for a client. This plan will serve as a financial guideline for a client with which an expert financial planner explores a client’s strengths and weaknesses based on the client’s finances and accumulated debt. This will give the client greater flexibility when contemplating financial decisions by considering his or her risk tolerance. Clarence (age 48) and Robin (age 40) have been married for 15 years. They have three children: Marcus (age 14), Carrie (age 10), and Brittany (age 6 months). Clarence recently received a promotion resulting in a substantial pay raise and now earns \$135,000 annually, an increase of \$45,000. Since receiving Clarence’s salary increase, the couple has decided that Robin will stay at home to care for their children and her aging parents, who reside next door (et al. 2019). To date, the couple has been very frugal in their spending and debt accumulation. They are interested in buying a larger home but would like your recommendations as a financial planner. They currently have \$186,000 remaining on their current mortgage. They would like to sell their current home, but only after they have moved into their new home. They will have to pay two mortgages for some time depending on how long it takes to sell their current home. They have found their dream home; the asking price is \$325,000. They have \$60,000 in a savings account at their local bank. Robin also has \$25,000 in a Roth IRA. They are thinking about using all of their savings for the down payment on the new home, meeting the 20 percent required needed to avoid private mortgage insurance (PMI). They would like you, the financial planner, to make recommendations regarding the purchase of the new home related to financing strategies and debt management.

Conclusion:-

As a financial planner, you know there is much more to this picture that needs to be considered. For example, the planner must first determine their other expenses, including accumulated debt, and the couple's financial goals, including strategies for meeting their current goals such as education planning for their children. Stanley and Simone have come to you for recommendations. They are having financial problems and are considering bankruptcy. They provide you with the following information: They have three children, ages six months to 18 years. Their bills include a mortgage of \$150,000 at 5 percent, the second mortgage of \$20,000 at 7.5 percent (because they had too much credit card debt), additional debts to various credit cards totaling \$10,000 with interest rates varying between 12 percent and 28 percent, a lease on Stanley's new truck of \$28,000, a car loan on Simone's car for \$7,000, and past-due medical bills totaling \$4,000 from the delivery of their last child. They have \$5,000 in savings. As a financial planner, you know more information is needed to examine the couple's cash flow management and to be able to create a debt management plan. An examination of the couple's cash flow may free up funds that could be used to pay down debt.

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